

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 3151-01
Bill No.: Perfected HB 1319
Subject: Education, Elementary and Secondary: Employees - Employers; Revenue
Department; Taxation and Revenue - Income
Type: # Corrected
Date: April 2, 2008
#Corrected to reflect correct fiscal years

Bill Summary: Authorizes an income tax credit for employers who hire qualified high school students for summer jobs.

FISCAL SUMMARY

ESTIMATED NET EFFECT ON GENERAL REVENUE FUND			
FUND AFFECTED	#FY 2009	#FY 2010	#FY 2011
General Revenue	(\$163,341)	(\$75,187 to \$3,098,459)	(\$77,442 to \$3,113,204)
Total Estimated Net Effect on General Revenue Fund	(\$163,341)	(\$75,187 to \$3,098,459)	(\$77,442 to \$3,113,204)

ESTIMATED NET EFFECT ON OTHER STATE FUNDS			
FUND AFFECTED	#FY 2009	#FY 2010	#FY 2011
Total Estimated Net Effect on <u>Other</u> State Funds	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 8 pages.

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	#FY 2009	#FY 2010	#FY 2011
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON FULL TIME EQUIVALENT (FTE)			
FUND AFFECTED	#FY 2009	#FY 2010	#FY 2011
General Revenue	1 FTE	1 - 2 FTE	1 - 2 FTE
Total Estimated Net Effect on FTE	1 FTE	1 - 2 FTE	1 - 2 FTE

☐ Estimated Total Net Effect on All funds expected to exceed \$100,000 savings or (cost).

☒ Estimated Net Effect on General Revenue Fund expected to exceed \$100,000 (cost).

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	#FY 2009	#FY 2010	#FY 2011
Local Government*	\$0	\$0	\$0

*** The fiscal impact could be divided between the General Revenue Fund and the County Foreign Insurance Fund (which ultimately goes to local school districts) if some of the tax credits are utilized against insurance premium taxes.**

FISCAL ANALYSIS

ASSUMPTION

Officials from the **Department of Labor and Industrial Relations** state this proposal will have no fiscal impact on their agency.

Officials from the **Office of Secretary of State (SOS)** assume many bills considered by the General Assembly include provisions allowing or requiring agencies to submit rules and regulations to implement the act. The SOS is provided with core funding to handle a certain amount of normal activity resulting from each year's legislative session. The fiscal impact to the SOS office for Administrative Rules is less than \$2,500. The SOS recognizes this is a small amount and does not expect additional funding would be required to meet these costs. However, SOS also recognizes that many such bills may be passed in a given year and that collectively the costs may be in excess of what the SOS can sustain with their core budget. Any additional required funding would be handled through the budget process.

According to officials from the **Office of Administration - Division of Budget and Planning (BAP)**, proposal states the cumulative amount of tax credits claimed in any one fiscal year shall not exceed \$3 million. Therefore, general and total state revenues may be reduced by this amount annually. The proposed legislation should not result in additional costs or savings to BAP.

According to officials from the **Department of Insurance, Finance, and Professional Regulation (DIFP)**, tax credits taken by insurance companies decrease the amount of premium tax received by the state. Premium tax is split between General Revenue and the County School Funds.

It is unknown how many insurance companies will choose to participate in this program and take advantage of the tax credits. DIFP estimates that from \$0 to \$3 million per year could be lost in premium tax revenue as a result of tax credits. Premium tax revenue is split 50/50 between General Revenue and County Foreign Insurance Fund except for domestic Stock Property and Casualty Companies who pay premium tax to the County Stock Fund. The County Foreign Insurance Fund is later distributed to school districts through out the state. County Stock Funds are later distributed to the school district and county treasurer of the county in which the principal office of the insurer is located. It is unknown how each of these funds may be impacted by this tax credit each year.

DIFP will require minimal contract computer programming to add this new tax credit to the

ASSUMPTION (continued)

premium tax database and can do so under existing appropriation; However, should multiple bills pass that would require additional updates to the premium tax database, DIFP may need to request more expense and equipment appropriation through the budget process.

Officials from the **Department of Revenue** assume Personal Tax would require 1 Tax Processing Technician I for every 6,000 credits claimed. The Corporate Income Tax and Financial Institutions Tax Divisions assume changes could be handled with existing staff.

Oversight has, for fiscal note purposes only, adjusted the starting salary for the additional position to correspond to the second step above minimum for comparable positions in the state's merit system pay grid. This decision reflects a study of actual starting salaries for new state employees for a six month period and the policy of the Oversight Subcommittee of the Joint Committee on Legislative Research. Oversight has also adjusted equipment and expense amounts in accordance with OA budget guidelines. **Oversight** assumes that one additional employee could be accommodated in existing office space. If unanticipated additional costs are incurred or if multiple proposals are enacted which increase the DOR workload, resources could be requested through the budget process.

Oversight assumes that tax returns utilizing the new credit would not be filed with the Department of Revenue until January, 2010; therefore, Oversight will estimate the cost of the additional FTE for DOR for only six months in FY 2010 and for a full year in FY 2011. Oversight is unsure if enough credits will be filed with tax returns to warrant the additional FTE for DOR, therefore, Oversight will range the cost of the DOR FTE from \$0 to the estimated cost.

Officials from the **Department of Elementary and Secondary Education (DESE)** assume the proposal requires DES to establish a procedure by which a taxpayer can determine if a student is a qualified high school student, and by which such taxpayer can then claim a tax credit.

DES does not currently collect individual student records and would have no knowledge of a student's GPA. DES would have to collect the GPA of every student, in addition to parental approval, and develop a system which has the ability to cross reference minimum attendance requirements, and free or reduced lunch eligibility. Adding an additional element to student data collection will cost approximately \$100,000. In addition DES would require 1.0 FTE director to implement this program and review claim forms annually.

DES states that local school districts will likely incur costs to collect and send data to the department on a continual basis.

ASSUMPTION (continued)

Oversight has, for fiscal note purposes only, adjusted the salary and benefits of the director to correspond with the range for starting salaries posted by DES for a similar position and has excluded travel costs, assuming the program could be administered with minimal travel.

Oversight assumes administrative costs incurred by school districts will be absorbed with existing resources.

Oversight compared the total tax credit issuances relative to the total tax credit redemptions for the previous three years in order to determine a relationship between the two. Oversight discovered that the annual redemptions ranged from 79 percent to 86 percent of the annual issuances. Depending on the program, the redeemed credits may have been issued several years prior and carried forward to the years studied; however, Oversight will utilize an estimated redemption total of 83 percent of tax credits issued. Assuming \$3 million in annual issuance from this program, Oversight would assume roughly \$2.49 million would be redeemed annually.

Oversight will range the fiscal impact of the new tax credit program from \$0 (no taxpayers taking advantage of the tax credit) to the annual cap of \$3,000,000. This tax credit is for tax years beginning on or after January 1, 2009; therefore, there could be a reduction in revenue collections in FY 2010. **Oversight** has shown the full cost of the tax credits in the General Revenue Fund, although the tax credits could be used by insurance companies and result in fiscal impact to other state and local funds.

<u>FISCAL IMPACT - State Government</u>	FY 2009 (10 Mo.)	FY 2010	FY 2011
GENERAL REVENUE			
<u>Cost - Department of Revenue</u>			
Personal Service (1.0 FTE)	\$0	\$0 to (\$11,681)	\$0 to (\$24,062)
Fringe Benefits	\$0	\$0 to (\$5,165)	\$0 to (\$10,640)
Expense and Equipment	<u>\$0</u>	<u>\$0 to (\$6,426)</u>	<u>\$0 to (\$1,060)</u>
Total Costs - DOR	\$0	\$0 to (\$23,272)	\$0 to (\$35,762)
 FTE Change - DOR	 0 FTE	 0 - 1 FTE	 0 - 1 FTE
<u>Costs - Department of Elementary and Secondary Education</u>			
Personal Service (1.0 FTE)	(\$41,509)	(\$51,305)	(\$52,844)
Fringe Benefits	(\$18,355)	(\$22,687)	(\$23,368)
Expense and Equipment	(\$3,477)	(\$1,195)	(\$1,230)
Data system updates	<u>(\$100,000)</u>	<u>\$0</u>	<u>\$0</u>
Total Costs - DESE	(\$163,341)	(\$75,187)	(\$77,442)
 FTE Change - DESE	 1 FTE	 1 FTE	 1 FTE
<u>Loss - Tax credits of 35% of amount paid to a qualified high school student in wages for summer employment</u>		\$0 to	\$0 to
	<u>\$0</u>	<u>(\$3,000,000)</u>	<u>(\$3,000,000)</u>
 ESTIMATED NET EFFECT ON GENERAL REVENUE		<u>(\$75,187 to</u>	<u>(\$77,442 to</u>
	<u>(\$163,341)</u>	<u>\$3,098,459)</u>	<u>\$3,113,204)</u>
 Estimated Net FTE Change for General Revenue	 1 FTE	 1.5 FTE	 2 FTE

Note: The fiscal note does not reflect the possibility that some of the tax credits could be utilized by insurance companies against insurance premium taxes. If this occurs, the loss in tax revenue would be split between the General Revenue Fund and the County Foreign Insurance Fund, which ultimately goes to local school districts.

FISCAL IMPACT - Local Government

#FY 2009
(10 Mo.)

#FY 2010

#FY 2011

\$0

\$0

\$0

FISCAL IMPACT - Small Business

If a small business employs a qualified high school student for summer employment and pays them more than \$100, that business would be able to claim the tax credit created by this proposal.

FISCAL DESCRIPTION

Beginning January 1, 2009, this proposed legislation authorizes a tax credit for employers who hire qualified high school students for summer jobs. The tax credit is equal to 35% of the wages paid to the student employee, but can only be claimed if the employer pays the student at least \$100. An employer can claim up to \$50,000 per year. The program has a cumulative annual cap of \$3 million.

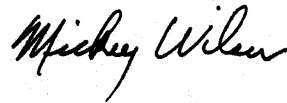
To qualify, a student must be currently enrolled as a junior or senior in high school, meet minimum attendance requirements, earn a grade point average of 2.0 or better, and be eligible for the free or reduced lunch program. Students who are home schooled and meet these requirements are also eligible. The Department of Elementary and Secondary Education must establish a procedure by which an employer can determine if he or she is eligible to receive the tax credit based on if the student employee qualifies. The department must also track students for whom employers receive this tax credit.

The provisions of the proposal will expire December 31 six years from the effective date.

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
 Division of Budget and Planning
Department of Elementary and Secondary Education
Department of Labor and Industrial Relations
Department of Insurance, Finance, and Professional Regulation
Office of Secretary of State
 Administrative Rules Division

A handwritten signature in black ink that reads "Mickey Wilson". The signature is written in a cursive, flowing style.

Mickey Wilson, CPA
Director
April 2, 2008